



MIAMI-DADE COUNTY BOARD OF COUNTY COMMISSIONERS
OFFICE OF THE COMMISSION AUDITOR

**AUDIT OF THE
PURCHASING CARD PROGRAM**

Project Number 05-13-35-03
July 6, 2005

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TABLE OF CONTENTS

TRANSMITTAL MEMO	3
OBJECTIVE AND SCOPE	4
METHODOLOGY	4
BACKGROUND.....	5
EXECUTIVE SUMMARY	5
FINDINGS AND RECOMMENDATIONS & MANAGEMENT'S RESPONSE	6
IMPROPER SEGREGATION OF DUTIES.....	6
MANAGEMENT RESPONSE.....	7
STORAGE.....	8
MANAGEMENT RESPONSE.....	8
PROCEDURES.....	8
MANAGEMENT RESPONSE.....	9
LOST OR STOLEN CARD POLICIES.....	9
MANAGEMENT RESPONSE.....	10



**MEMORANDUM
BOARD OF COUNTY COMMISSIONERS
OFFICE OF THE COMMISSION AUDITOR**

TO: Honorable Chairman Joe A. Martinez
and Members, Board of County Commissioners

DATE: July 21, 2005

FROM: Charles Anderson, CPA
Commission Auditor

A handwritten signature in dark ink, appearing to read "Charles Anderson", is written over the printed name.

SUBJECT: Final Audit Report
of Purchasing Card Program
Project Number: 05-13-35-03

We have conducted an audit of the County's Purchasing Card Program and we submit this report, which contains findings, recommendations, and management responses. Management substantially concurred with our recommendations.

We thank employees of the Finance Department for their cooperation and input throughout the audit. Please let me know if you need further information.

CA/chn

Cc: Honorable Carlos Alvarez, Mayor
George Burgess, County Manager
Chris Mazzella, Inspector General
Cathy Jackson, Audit Management Services
Alina Hudak, Assistant County Manager
Rachel Baum, Finance Director

I. OBJECTIVE AND SCOPE

The Office of the Commission Auditor conducted this audit as part of the FY 04-05 Audit Work Plan approved by the Miami-Dade Board of County Commissioners. Our audit included a review of the purchasing card transactions administered by the Finance Department of Miami-Dade County.

The objective of our audit was to determine:

- ◆ whether internal controls for purchasing card administration were reasonable and;
- ◆ whether controls were in place to reasonably prevent purchasing card misuse and abuse.

II. METHODOLOGY

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (2004) promulgated by the Institute of Internal Auditors; Government Auditing Standards issued by the United States General Accounting Office (2003 Revision); or where appropriate, State Statutes, County Ordinances and Departmental policies and procedures.

We examined and documented a sample of Finance Department's Purchasing Card files that supported transactions from January 1, 2004 through December 31, 2004. To obtain a desired level of assurance, we reviewed:

- ◆ Application files of 10 of the 61 user departments for completion and accuracy;
- ◆ The entire County's purchasing card transactions for the months of May, August and November 2004; and
- ◆ Employees leave history reports to test for compensating or mitigating controls.

We also interviewed staff that was responsible for Purchasing Card authorization and reconciliation.

The fieldwork was performed March 21, 2005 through April 15, 2005.

III. BACKGROUND

The Miami-Dade County Purchasing Card Program is designed to improve efficiency in processing low dollar purchases from any vendor that accepts the "VISA" credit card. Many of the County's current suppliers accept the Visa credit card. Using a purchasing card gives a department/division the convenience of purchasing without the need to process small Purchase Order (P.O.) forms.

The program simplifies the procurement/disbursement process by allowing the cardholder to purchase approved commodities and services for legitimate public purpose directly from the vendor.

The County processes nearly \$500 million in commodities and services annually. An estimated 1% of these transactions are small dollar purchases of less than \$500 which entails thousands of individual transactions with matching payments. The purchasing card reduces the time spent by procurement and accounting staff processing low dollar transactions.

All transactions are approved or declined electronically at the point-of-sale based on the purchase card criteria established by the individual department purchasing card coordinator.

The program is managed by the Finance Department's Purchasing Card Administrator.

These activities and responsibilities are defined by Resolution No. R-753-02.

IV. EXECUTIVE SUMMARY

Our review of selected Purchasing Card Program functions and associated internal controls showed that:

- ◆ The Finance Department lacked segregation of duties in Purchasing Card transactions;
- ◆ All authorization and reconciliation documents collected since the inception of the Purchasing Card program were filed in hard copy format and located in one employee's cubicle;
- ◆ There was no written documentation of the internal procedures governing the authorization, custody, record keeping and reconciliation of Purchasing Card transactions; and
- ◆ Lost or stolen cards were not immediately reported to the Finance Department.

In our opinion, except as noted in the findings and recommendations listed below, the Finance Department complied with all applicable rules, and regulations.

V. FINDINGS AND RECOMMENDATIONS

1) Improper Segregation of Duties

We noted that the Finance Department lacked segregation of duties in Purchasing Card transactions. One employee was responsible to order the purchasing cards from the bank, the custody and subsequent transmittal of the card to the user department, record keeping of the requests to issue the purchasing card and the review of the reconciliations received from the departments.

Segregation of duties is an internal control intended to prevent, detect or minimize the occurrence of innocent errors or intentional fraud. This is done by ensuring that no single individual has control over all phases of a transaction.

There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

In those instances where duties cannot be fully segregated, mitigating or compensating controls must be established. Mitigating or compensating controls are additional procedures designed to reduce the risk of errors or irregularities.

RECOMMENDATION

We recommend the Finance Department separate the duties involved in the processing and reconciliation of Purchasing Cards. A detailed review of the reconciliation should be performed and documented by a supervisor to provide additional control over the assignment of incompatible functions.

In an instance where duties cannot be fully segregated due to lack of personnel, mitigating or compensating controls must be established. We recommend the employee responsible for the authorization, custody, record keeping and reconciliation of Purchasing Card transactions take a minimum of seven (7) days vacation every fiscal year. Accordingly, the aforementioned functions should be assigned to another staff member for performance.

We also recommend staff cross-training to afford substitution and coverage during absences and mandated leave.

Management Response:

1) Improper Segregation of Duties

The P-Card Pilot Program commenced in December, of 2000, as approved by Resolution No. R-701-00, with four (4) initial departments (Police, Fire, GSA-Fleet, and Housing.) The pilot program was completed on October, 2001 with total expenditures of \$171,000. Shortly thereafter, the program was expanded Countywide pursuant to Resolution No. R-719-02.

Additional departments included: GSA-Construction, Judicial Administration, Building Code Compliance, Communications, Finance, and ETSD, resulting in approximately 80 cards issued with total expenditures of \$1.1 million in 2001. During the pilot program and initial expansion of the program, additional staffing was not deemed required. During the initial phase of the program the duties were segregated between the Disbursement Officer and an Accountant I on a part-time basis.

We concur with the finding. The P-Card program has recently expanded to all departments as a means of paying for County related travel expenditures, specifically the air-fare expenditures portion. Since then the P-Card count has grown to approximately 300 cards with total expenditures of \$2.3 million in fiscal year 2004. The workload has expanded and requires a full time position to handle all the tasks associated with the P-Card Program. It is now necessary to assign additional staff in order to maintain the work level up to date and segregate the duties more effectively.

We are enhancing the procedures as follows:

- *Certain duties assigned to the P-Card Administrator will be segregated and assigned to two separate individuals. The review of the reconciliations submitted by departments will be performed by another person and such reconciliations will be matched to the payments made to the Bank. This individual will not have the authority to order cards.*
- *We currently have a standard authorization form from the bank which departments must complete when requesting a P-card. The form currently includes the following:*
 - *Name of department*
 - *Name of future cardholder*
 - *Work address, email, phone number of the cardholder as well as index code for charge purposes*
 - *Department Director authorization*

In addition to above requirements, the authorized form will be reviewed and approved by the Controller or Assistant Controller(s) prior to ordering and issuance of the card. We will also implement a new process whereby newly

issued cards will be mailed by the bank to the Assistant Controller(s) who will match cards to the previously approved authorizing form.

We will further strengthen the controls by recording the actual cardholders and monthly-authorized limits in the FAMIS system upon receipt of the card by the Controller or Assistant Controller.

On a monthly basis, designated personnel from the Controller's - Accounting and Reporting Section will reconcile the list of cards issued by the Bank to FAMIS. Random audits will be performed comparing the open cards as shown on the Bank of America system to the authorizing forms. This individual will be given access to the "Reporting only" capabilities of the Bank of America system. Individual will be properly trained on accessing the data and retrieving the detailed information needed to perform the surprise audit.

2) Storage

We observed that all authorization and reconciliation documents collected since the inception of the Purchasing Card program were filed in hard copy format and located in one employee's cubicle. This filing system slows down retrieval when documents are requested. The department does not have a backup system for this information in case of a natural or unnatural disaster.

RECOMMENDATION

We recommend the Finance Department make necessary arrangements to have all the authorization and reconciliation documents stored electronically. We also recommend the department devise a recovery plan in case of any natural or unnatural disaster.

Management Response:

The Finance Department concurs with the recommendation and will explore the possibility of contracting with a vendor to microfilm our records. We will ask for two (2) copies, one for the office and one to keep in a safe offsite.

3) Procedures

There was no written documentation of the internal procedures governing the authorization, custody, record keeping and reconciliation of Purchasing Card transactions. Procedures should be documented to ensure continuity of operations in the case of an employee's reassignment or separation from the County.

RECOMMENDATION

We recommend that the Finance Department develop and document internal procedures governing the authorization, custody, record keeping and reconciliation of Purchasing Card transactions.

Management Response:

Currently, the Purchasing Card handbook/guidelines, along with the required forms including the Card Set up Form, the Cardholder Agreement, and the Reconciliation Form, contain guidelines for the purchasing card program. Additionally, other County procedures documents, such as the hurricane emergency update form and travel procedures, also contain guidelines that may be referred to and are all available on the County's website. Many of the currently used referenced materials were created when the program began as a pilot, and need some updating. Consequently, the Finance Department will review and update general instructions as necessary; however, we believe that providing specific instructions, particularly if accessible to outside parties, may compromise security measures and controls we are trying to maintain.

In addition to the guidelines in place, there is adequate cross training between the Accounts Payable Section's supervisors, to ensure the continuity of operation and guidance in the event of staff reassignments, thus representing an existing compensating control.

4.) Lost or Stolen Card Policies

We noted that lost or stolen cards were not immediately reported to the Finance Department due largely to the fact that there were no clear policies governing the responsibilities of both Bank of America and the cardholders. In one instance, the cardholder reported a lost card directly to the bank and had the bank send a replacement directly to the requestor without notifying the Finance Department.

RECOMMENDATION

We recommend the Finance Department update the policies and procedures to include the procedures for reporting and replacing a lost or stolen card.

Management Response:

The current cardholder handbook (page 4) states that all cardholders are required to read and follow required guidelines, which specify that lost or stolen cards must be immediately reported to the card administrator (Finance Department) and Bank of America. Additionally, all cardholders are required to attend training sessions on the guidelines for the use of the purchasing cards.

In June, 2004 when the replacement card was mailed to the cardholder, the Finance Department contacted Bank of America and requested that controls be put in place in the bank system at the corporate card level to restrict all replacement of cards to the Finance Department.